



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:32 a.m., November 27, 2001. The following members were present:

Jody B. Olson
Dennis L. Johnson
J. Kirk Sullivan
Pamela I. Ahrens
Susan K. Simmons

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn	R.V. Kuhns & Assoc.
Rod MacKinnon	Mountain Pacific Investment Advisors
Bruce Reeder	Mountain Pacific Investment Advisors
Brian McGrath	DB Fitzpatrick & Co.
Drew Black	DB Fitzpatrick & Co.
Dennis Fitzpatrick	DB Fitzpatrick & Co.
Robert Schmidt	Milliman USA
Karen Steffen	Milliman USA
James Coleman	PERC / Retired Teachers
Charlie Brown	Retired Educators Association of Idaho
Kathy Phelan	IEA
Jim Shakelford	IEA
Matt Freeman	LSO-BPA
Phil Suess	Mercer
Brent Nye	Boise School District
Moe Therrien	Mountain State Appraisals
Andy Erstad	Erstad Thornton Architects
Mario Gianinni	Hamilton Lane Advisors
Richelle Sugiyama	PERSI

Cecile McMonigle	PERSI
Rhonda Yadon	PERSI
Gay Lynn Bath	PERSI
Judy Aitken	PERSI
Susan Shaw	PERSI
John Doner	PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Ahrens and seconded by Trustee Johnson, the Board unanimously approved the minutes of the October 23, 2001 regular meeting of the Retirement Board.

PORTFOLIO

Doug Dorn Consulting Contract: Chairman Olson said Consultant Doug Dorn has cancelled his association with Helliesen & Cottle who are now a part of Milliman USA. Mr. Dorn is now in association with R.V. Kuhns & Associates. The Board had received a memorandum dated November 20, 2001 regarding this issue. By motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the Board cancelled the consulting contract with DHC and approved a new contract with R.V. Kuhns. Mr. Dorn will act in the same capacity as he formerly did.

Monthly Portfolio Robert Maynard discussed his investment report dated November 26 which he had updated from the November 20, 2001 version previously furnished to the Board. In the report, Mr. Maynard noted that

“After the huge declines in consumer confidence, consumer spending, and business activity during September, October showed signs of economic bottoming and some recovery. The 50 basis point drop in interest rates by the Federal Reserve Board, early anecdotal indications of a consumer rebound, and expectations of fiscal stimulus, all have led to a significant equity market rebound since the two weeks after September 11. As a result, the portfolio as a whole has gained over 10% since the lowpoint on Sept. 23rd and has climbed back to the levels seen in late July of this year. In the current month, growth managers such as Barings (but not Columbus Circle), international equity, and emerging markets are again showing strength, with value and GARP managers having some difficulty. All managers are either within their expected characteristics or have reasonable explanations for slight deviations.”

Mr. Maynard expressed his continued concern regarding Columbus Circle (Small Cap Growth portfolio). The on-site visit which was previously scheduled in September was postponed due to the tragic events and may be rescheduled in the near future. He said staff has been and will continue to closely monitor the portfolio and the underlying investment strategy. He discussed the defensive position of our portfolio saying as the market turns, we will not capture all of the upswing.

TUCS Report – Consultant Doug Dorn reviewed PERSI performance for the Board saying the Fixed Income investments are doing well. Mountain Pacific Investments and DB Fitzpatrick, Inc., both of Boise are showing outstanding returns. The objective of PERSI’s

investments is to fund the benefits. He provided a chart to the Board from which he drew comparisons of PERSI's performance to that of peers. He distributed wallet-sized charts of market index returns over the last ten years for quick reference, and as justification for the allocation to equities. Mr. Dorn noted that the last ten-year returns were in line with the expected returns utilized in the historical asset allocation study. He said all the PERSI managers are doing as we would expect them to do given current markets. Using the TUCS database, he compared PERSI's allocations to those of peer systems. There was further discussion of the change in investment management personnel at Columbus Circle. They have performed pretty consistently over the past 10-12 years. Trustees expressed concern over recent performance; Mr. Maynard reiterated that he is monitoring their portfolio daily and growing concerns may initiate a rescheduling of the on-site review.

Private Equity Report – Mario Gianinni of Hamilton Lane reviewed the report dated June 30, 2001 which had previously been furnished to the Board. The report represented the review of the alternative investment portfolio, including both private equity and real estate, as of June 30, 2001. It reported valuations and performance calculations as of June 30, 2001, gave an overview of each private equity and real estate investment which includes descriptions of recent key developments affecting the investments, and provided a listing of the portfolio companies held by the private equity partnerships. Chair Olson reminded Mr. Gianinni and the other trustees of his long time advocacy of private equity. Mr. Olson has been involved in many business acquisitions and divestitures. He has served on advisory boards including Saugatuck and Galen, two current PERSI managers. Mr. Olson asked a number of detailed questions on Hamilton Lane's methodology contrasting various fund managers' performance.

An investment portfolio assessment containing data summarizing capital contributions, committed capital and an assessment of the investment's performance to date was also included in the report. Various graphs provided diversification information. A summary of cash flow activity for the quarter ended June 30, 2001 was also listed. Trustee Sullivan asked how the process of drawing on the capital commitment works and whether we can deny the draw. Mr. Gianinni and Mr. Maynard said that once the commitment is made, we have legally committed to fund the project. However, Mr. Olson pointed out that we can contact other partners and together change the agreements when there are issues. When a capital call is received, Hamilton Lane reviews the request to ensure it is in line with our agreement before PERSI actually transfers the funds.

Performance Report on 401(k) Options: Phil Seuss of Mercer had provided an evaluation report for the period ending September 30, 2001. The report covers only gain sharing investments, because the Scudder funds had not yet been merged when the period ended. He reviewed the performance of the individual funds. The report said that of the Plan's seven actively managed funds, six ranked in the top half of their peer group for the quarterly returns ending September 30, 2001. Mercer expects the Plans investment funds to rank in the top half of the applicable peer groups over the trailing three- and five-year periods. Mr. Winkle said we expect this report to be produced on a quarterly basis and Mr. Seuss will present the report on a semi-annual basis. Because such a large percentage of the 401(k) investments remain in the PERSI Total Return Fund, it appears that Mr. Maynard is doing 90% of the fund monitoring. Chairman Olson asked about that and Mr. Winkle replied that we expect diversification to occur as the year continues. The options will be reviewed and recommended changes would be

brought to the Board. Because the other six options are, in essence, in competition with the PERSI Total Return Fund for member's funds, it is not fiduciarily appropriate for Mr. Maynard to review and comment on those funds. Trustee Ahrens said that as time goes by and our members gain faith in the markets again, and as members become more educated to the investment process, she would expect more diversification. The legislative intent of the gain sharing program was to offer investment options to our members. The presentation concluded with more discussion of the investment guidelines of the options, the average quality of the holdings, credit duration and the financial reporting methods.

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. Rod MacKinnon said the markets are watching for corporate profitability right now. His company is optimistic and believes corporate profits will recover and the market will respond positively. Dennis Fitzpatrick said fixed income is doing better in this market and DB Fitzpatrick is in that sector. He believes the recovery started in September or October; he believes inflation may be a problem two or three years down the road.

Mr. Maynard added that he may keep a slight over allocation in equities and will keep the TIPS exposure because of the potential of inflation.

EXECUTIVE DIRECTOR

Final Valuations PERSI Plan, FRF and Unused Sick Leave. Actuaries Karen Steffen and Robert Schmidt provided a short review of the valuations which had been discussed at previous meetings and provided earlier to the Board members. Ms. Steffen said other plans have experienced negative returns in this market and the PERSI one-standard deviation buffer was reasonable. It was not expected to cover this amount of volatility. Trustee Johnson asked whether there was anything in the current valuation that would cause the actuary alarm if the Board approved the full statutory COLA. Ms. Steffen said there was not. She discussed the effect of the COLA and concluded that if PERSI experiences more losses and approaches the 25-year funding mark it will not be because a COLA is awarded. Mr. Johnson asked if the funding was more than adequate at this time and whether Milliman, USA was recommending an increase in contribution rates. Ms. Steffen replied that no increase in the contribution rate is recommended; 97% funded is considered well funded. She agreed that no assets are available for gain sharing this year; the Board policy is not to consider gain sharing until there is a buffer which occurs when we are about 113% funded. By motion duly made by Trustee Ahrens and seconded by Trustee Johnson, the Board unanimously approved the valuations of the PERSI Plan, the FRF Plan and the Unused Sick Leave all dated July 1, 2001.

COLA Discussion and Decision: Mr. Winkle discussed the legislative process of a COLA. The law provides a 1% mandatory COLA with Board discretion for an additional COLA from 1% to the lesser of the CPI or 6%. The maximum COLA for 2002 will be 2.7%. Awarding the 1.7% discretionary portion would increase the unfunded actuarial liability by \$42 million, the amortization period from 10.1 years to 12.9 years and decrease the funded ratio from 97.2% to 96.6%. Making the motion to award a total COLA of 2.7% effective March 1, 2002, Trustee Johnson said the core responsibility of the Board is to have earnings to provide benefits. He said that with the funding level at 96.6% even after the COLA, he felt the Board was in a good position to give the maximum COLA. Trustee Ahrens seconded the motion. Trustee Sullivan said he has concerns because it increases the amortization period by 2.8 years and increases the

deficit; he does not have confidence that it will not increase even more by next July. Recognizing that the fund is in a well-funded position, due to the instability of the economy and the inability to predict the future months he said it was difficult for him to vote for the COLA, but he indicated he would probably vote affirmatively. Trustee Simmons joined him in his concern, saying things are not as rosy as we had expected, but indicated she would vote affirmatively. At the conclusion of the discussion, the motion carried unanimously.

FISCAL

Expense Reports: Financial Officer James Monroe reviewed his memorandum dated November 20 that had previously been furnished to the Board. He discussed the private equity asset cost issue that was noted by the auditors and explained how the concern is being addressed. The Administrative and Portfolio Expense reports had previously been furnished to the Board; Mr. Monroe reviewed the summary pages with the Board.

Quarterly Financial Report – Senior Accountant Rhonda Yadon presented the unaudited financial statements for the quarter ended September 30, 2001 and 2000. She said the report format has been changed, but everything is comparable with the previous year. In response to a question from Trustee Simmons, she said the Idaho Super Saver Scudder 401(k) funds are not in these numbers, but will be in next time. Super Saver funds were merged after the September 30 reporting period.

Audit Adoption - By motion duly made by Trustee Simmons, seconded by Trustee Sullivan and unanimously approved, the Board accepted the Financial Statements and Supplemental Information for the Year Ended June 30, 2001 and Independent Auditor's Report by Deloitte & Touche.

820 Building Report: Andy Erstad, erstad thornton architects, and Moe Therrien, Mountain State Appraisal, reviewed the Feasibility Study for the 820 Washington building that had been provided to the Board. The study offered a range of choices from remodeling the interior of the existing building to demolition of the building and construction of a new structure. There was discussion of what rent rates are actually being paid in the area, whether an anchor tenant is generally secured before new building construction begins, and the reliability of the financial estimates. Chairman Olson asked staff to continue to gather information and to review feasibility of just a parking structure at this time.

New Employers: By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board welcomed four new employers to PERSI:

City of Island Park – effective January 1, 2002

Plummer-Gateway FPD --- effective January 1, 2002

Central Fire District – effective October 1, 2001, and

Orofino Cemetery District – effective December 1, 2001

Trustee Ahrens was excused from the meeting at the second break because of a prior commitment.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. Mr. Winkle reviewed this memo saying staff is investigating the possibility of using our satellite offices in Pocatello and Coeur d'Alene for hot sites in our business resumption plan. In response to a question from the Chair, Mr. Winkle said the regular interest credited to member accounts for calendar year 2002 will be 4.82%. For the calendar year 2001 it is 12.3%.

Other Business: Charlie Brown, representing the Retired Educators Association of Idaho, thanked the Board for approving the COLA. He said many of the older members are experiencing increasing medical and prescription fees and this will help them.

FUTURE BOARD MEETINGS

Tuesday, December 18, 2001, 8:30 a.m., Boise - PERSI office

By motion duly made by Trustee Sullivan, seconded by Trustee Simmons and unanimously approved, the Board set the following dates for the 2002 year.

Tuesday, January 22, 2002 8:30 a.m., Boise - PERSI office

Tuesday, February 26, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, March 19, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, April 23, 2002, 8:30 a.m., Boise - PERSI office

May 14, 15 – PERSI Investment Conference

Tuesday, May 28, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, June 25, 2002, 9:30 a.m., Coeur d'Alene, Idaho

Tuesday, July 23, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, August 27, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, September 24, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, October 22, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, November 26, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, December 17, 2002, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Simmons, seconded by Trustee Johnson and unanimously approved, the meeting was adjourned at 11:20 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director